



## EVENT FLASH

## Strong results despite in-line sales and EBIT

STC reported a better than expected set of results with net income increasing 5.4% YoY and 21.3% QoQ to SR2.53bn. This compares with NCBC estimates of SR2.25bn. The better than expected results are mainly attributed to lower non-operating expenses as revenue, EBITDA and EBIT income were in-line with our estimates.

- STC reported a better than expected results, with net income growing 5.4% YoY and 21.3% QoQ to SR2.53bn. This is higher than NCBC and consensus estimates of SR2.25bn and SR2.10bn, respectively. Although revenue, EBITDA and EBIT were in-line with our estimates, we believe the variance was due to lower non-operating expenses driven by lower cost of early retirement, improvement in international operations or higher other income.
- Revenues declined 3.0% YoY and 1.4% QoQ to SR12.8bn, coming in-line with our estimates. We believe the YoY decline is due to the impact of the finger print verification campaign in 2016. Zain was the only company to report a YoY growth in revenue of 8.7% in 1Q17, while Mobily sales declined 16.7% YoY. This could indicate a potential change in market shares. Based on CITC, mobile subscribers declined 9.2% YoY in 2016 to 47.9mn.
- Gross margins expanded 134-137bps YoY and QoQ to 54.8%, but came in lower than our estimates of 57.0%. We believe the YoY improvement is due to the growth in the high margin data segment. EBITDA declined 4.4% YoY to SR4.6bn, while EBIT declined 8.8% YoY to SR2.6bn. We believe this is due to increasing marketing expenses following to increasing competition. EBITDA margin contracted 51bps YoY to 35.9% compared with our expectations of 36.3% while EBIT margins contracted 128bps YoY to 20.3%, coming in line with our estimates.
- Non-operating expenses declined 83.0% YoY to SR78mn from SR459mn, lower than NCBC estimates of SR340mn. This lead to a positive surprise in earnings. We believe this is attributed to 1) improvement in international operations, 2) lower early retirement cost and 3) higher other income.
- We remain Overweight on STC with a PT of SR68.9. The stock is trading at 2017E P/E of 14.0x, higher than regional peers, which we believe is justified given the attractive sustainable dividend yield. STC announced a DPS of SR1.0 for 1Q17 in line with our expectations implying an annual dividend yield of 5.8%. We believe any update on the bidding on Oman's 3<sup>rd</sup> telecom license will be a key catalyst going forward.

## 1Q17 Results Summary

SR mn	1Q17A	1Q16A**	% YoY	1Q17E	%Var <sup>^</sup>	% QoQ**
Revenues	12,830	13,229	(3.0)	12,759	0.6	(1.4)
Gross income	7,034	7,076	(0.6)	7,273	(3.3)	1.1
Gross margin (%)	54.8%	53.5%	1.34	57.0%	(2.18)	1.37
EBITDA	4,607	4,818	(4.4)	4,631	(0.5)	NA
EBIT	2,605	2,856	(8.8)	2,590	0.6	42.4
Net income	2,527	2,397	5.4	2,250	12.3	21.3
EPS (SR)	1.26	1.20	5.4	1.12	12.3	21.3

Source: Company, NCBC Research, <sup>^</sup>% Var indicates variance from NCBC forecasts; \*\*Restated numbers

## OVERWEIGHT

Target price (SR)	68.9
Current price (SR)	68.4
Upside/Downside (%)	0.7

## STOCK DETAILS

M52-week range H/L (SR)	73/53
Market cap (\$mn)	36,529
Shares outstanding (mn)	2,000
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	0.3	2.4	7.8
Rel. to market	1.2	4.9	2.6

Avg daily turnover (mn)	SR	US\$
3M	27.8	7.4
12M	34.9	9.3

Reuters code	7010.SE
Bloomberg code	STC AB
	<a href="http://www.stc.com.sa">www.stc.com.sa</a>

## VALUATION MULTIPLES

	16A	17E	18E
Reported P/E (x)	16.0	14.0	13.1
Adjusted P/E (x)	16.0	14.0	13.1
P/B (x)	2.3	2.2	2.1
EV/EBITDA (x)	7.6	7.1	6.9
Div Yield (%)	5.8	5.8	5.8

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

Iyad Ghulam +966 12 690 7811  
i.ghulam@ncbc.com

Kindly send all mailing list requests to [research@ncbc.com](mailto:research@ncbc.com)

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<http://research.ncbc.com>

**Brokerage website**

[www.alahlitadawul.com](http://www.alahlitadawul.com)  
[www.alahlibrokerage.com](http://www.alahlibrokerage.com)

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

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